

Welcome to *California*



Developing the Special Taxing Jurisdiction (STJ) Charges



STJ Costs-Background

- The Government Code and Revenue & Taxation Code governs the amount that the Board of Equalization (BOE) charges the State General Fund, Bradley Burns (cities and counties), and STJs for collecting transactions and use tax.

Government Code §11256

- Requires that state agencies furnishing services or performing work for other entities must include in their charges :

Direct Costs (salaries, benefits, direct operating expense) and
Indirect Costs (overhead, Central Agency Costs).

Revenue & Taxation Code §7272

- Requires that the STJ shall pay for preparatory costs incurred by the BOE.

Preparatory Costs

Preparatory costs include:

- Costs of developing procedures
- Programming for data processing
- Developing and adopting appropriate regulations
- Designing and printing of forms
- Developing instructions for the BOE's staff and for taxpayers
- Other necessary preparatory costs including the BOE's Direct and Indirect Costs as specified by §11256 of the Government Code.

Sample Preparatory Billing

		Sample Cost (Prep)
PERSONAL SERVICES:		
311	Legal	\$92
381	Technology Services Div.	3,666
316/7	Cust. & Taxpayer Serv.	372
466	Policy Development	1,447
473	Comp Planning & Eval	8,288
486	Local Revenue	925
		<hr/> \$14,790
OTHER COSTS:		
	DMV/HCD	\$7,813
	Printing	3,770
	Postage	7,066
	Misc.	39
		<hr/> \$18,688
TOTAL BILLING		<hr/> <hr/> \$33,478
Actual costs vary depending on how many STJs are enacted on the same effective date.		

Revenue & Taxation Code §7273

- Requires that, in addition to the preparatory costs, the BOE shall charge for its on-going services to administer the transactions and use tax.
- The amount charged will be determined by the BOE, with the concurrence of the Department of Finance (DOF).

Revenue & Taxation Code §7273 - Cont'd

- Requires that the BOE charge for Direct, Shared, and Central Agency Costs.
- Requires that the charges incorporate the recommendations of the Auditor General Report.

On-going Administrative Charges

- To develop the STJ on-going administrative charges, the BOE identifies costs as authorized by Statute:
 - Direct Costs
 - Shared Costs
 - Central Agency Costs

Direct Costs

- To develop the STJ Direct Costs, the BOE starts with the total cost of the sales and use tax program which administers the following taxes:
 - State General Fund Taxes
 - Bradley Burns Taxes
 - STJ Taxes

Direct Costs - Cont'd

- The four elements of the sales and use tax program are:
 - Registration
 - Return Processing
 - Auditing
 - Collections

Direct Costs - Cont'd

- The STJ and Bradley Burns Direct Cost involves two elements of the sales and use tax program:
 - Return Processing
 - Auditing

Direct Costs - Cont'd

- BOE's model uses two workload factors to calculate the STJ Direct Cost:
 - ***Return Processing Direct Costs*** - the number of STJ-related returns processed by BOE's return processing units
 - ***Audit Direct Costs*** - the number of audit hours recorded on time sheets by field auditors

Shared Costs - Definition

- After deducting the STJ and Bradley Burns Direct Costs from the BOE's total sales and use tax program, the remaining cost is the cost of activities that benefit all three tax entities (State General Fund, Bradley Burns and STJs). This remaining cost is referred to as Shared Cost.

Shared Costs - Cont'd

- As recommended by the Auditor General Report and required by Statute, the costs of activities performed in counties that do not have STJs are excluded from Shared Costs. After non-STJ costs are removed, the remaining cost is the net Shared Cost.
- Net Shared Costs are allocated to the State General Fund, Bradley Burns and STJs based on revenue.

Shared Costs - Cont'd

- The allocation of the total STJ Direct and Shared Costs to each individual STJ is based on specific workload factors associated with registration, return processing, auditing, and collection activities.

Shared Costs - Cont'd

Function

Registration

Return Processing

Auditing

Collections

Workload factors

Seller permits

Tax returns

Field audit hours

Delinquent tax collected

Central Agency Costs

- Central Agency Costs are those costs of other state agencies which provide support services to the BOE (State Controller, DOF, State Personnel Board, etc.).
- The overall Central Agency rate for the total sales tax program is the rate that is applied to the STJs.

Sample STJ Costs

	2003-04			
	Direct Costs	Shared Costs	Cent. Agy. Costs	Total
STJ A	\$246,000	306,000	20,000	\$572,000
STJ B	\$2,021,000	2,156,000	150,000	\$4,327,000

The Statutory Cap Limit

- The Revenue & Taxation Code §7273 limits the amount the BOE charges the STJs.
- The limit is based on the STJ's revenue multiplied by the statutory cap.

STJ Tax Rate

0.5 - 1.0 percent

0.25 - 0.49 percent

Less than 0.25 percent

Maximum Statutory Cap

1.5 percent of revenue

3.0 percent of revenue

5.0 percent of revenue

The Statutory Cap Limit - Cont'd

- For STJs in existence in 1998-99, the cap is the lesser of the statutory cap or the percentage of revenue the BOE charged in 1998-99.
- For STJs created after 1998-99, the cap is the lesser of the statutory cap or the percentage of revenue the BOE charged in their first full year of existence.
- Therefore, the actual cap for some STJs is less than the statutory cap.

Applying the Statutory Cap Limit

- If BOE's calculated charge is more than the cap limit, the STJ pays only the cap amount.
- If BOE's calculated charge is less than the cap limit, the STJ pays the calculated charge.

Applying the Statutory Cap Limit - Cont'd

Sample

	2003-04		
	BOE Estimated Costs	Statutory CAP Level	Allowable Costs
STJ A	\$572,000	703,000	\$572,000
STJ B	\$4,327,000	3,394,000	\$3,394,000

Prior Year Adjustments

- Revenue & Taxation Code §7273 requires that BOE incorporate an adjustment mechanism that considers the difference between the estimated and actual costs during the fiscal year two years prior.

Prior Year Adjustments - Cont'd

	<u>2001-02 Estimated</u> ^{1/}	<u>2001-02 Actual</u> ^{1/}	<u>2001-02 Adjustment</u>
STJ A	\$501,000	\$475,000	-\$26,000
STJ B	\$3,013,000	\$3,185,000	\$172,000

^{1/} After cap considerations

SUMMARY OF TWO INDIVIDUAL STJ COSTS

(After Cap Adjustments)

	2003-04 Cap-adjusted Total	Prior Year (2001-02) Adjustments	Total 2003-04 Charge
STJ A	\$572,000	-\$26,000	\$546,000
STJ B	\$3,394,000	\$172,000	\$3,566,000

Standards of Reporting

- Annually, the BOE updates the existing workload factors to ensure accuracy.
- Consistency in the methodology is maintained from year to year.

Summary

- The current model follows existing law as reflected in the Government Code and the Revenue & Taxation Code.
- The current model incorporates recommendations of the Auditor General Report as required by law.
- The current model follows Generally Accepted Accounting Principles.